VOL. 2011 | NO. 2

CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

CanadaWest FOUNDATION

OUT OF THE RECESSION? → TIDAL ENERGY IN BC → TACKLING CONSUMER DEBT

Monthly Highlights

Canada's economic growth picked up speed in the last quarter of 2010.

Real GDP advanced 0.8% in the fourth quarter, doubling the 0.4% growth recorded in the third quarter. The volume of exports of goods and services jumped 4.0% led by record high exports of crude petroleum. Consumer spending, the largest component of GDP, rose 1.2% on the strength of auto sales.

Employment in Alberta increased for the second consecutive month in February, up 0.7% (+13,700 jobs). With this increase Alberta has recouped nearly all the jobs lost during the recession—the last western province to do so. Saskatchewan lost 3,300 jobs (-0.6%), the largest decline in five months. BC's unemployment rate rose to 8.8% from 8.2% in January as more people entered the labour force in search of work.

Consumer prices rose across the country in January compared to twelve months earlier. In the West, the increases ranged from 1.0% in Alberta to 2.3% in BC and reflected increases in gasoline prices. Inflation in western provinces remained under or equal to the national average.

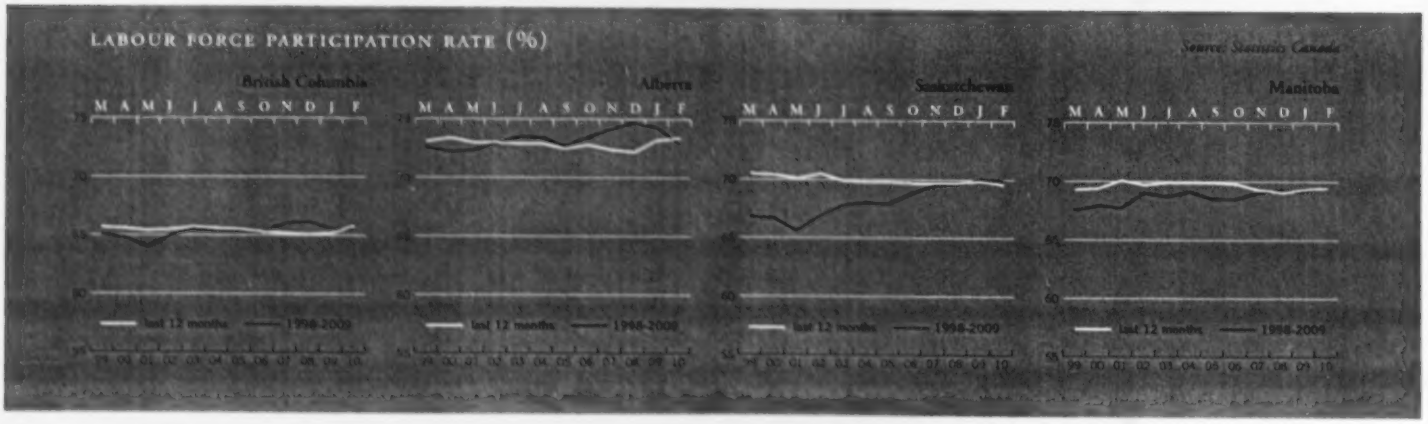
Retail sales declined across most of the West (except in Alberta). The losses were most pronounced in BC (-2.2%) and reflect lower sales of new motor vehicles. Wholesale trade was a different story in December, with the only western decrease—a modest one—taking place in Manitoba (-0.1%). Boosted by sales of agricultural supplies, Saskatchewan's advance was the largest in the country (+5.5%). Saskatchewan gained 30% in wholesaling value over the second half of 2010.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,261	2,068	523	625	17,230	February
% change	0.4	0.7	-0.6	0.0	0.1	
Unemployment rate (%)	8.8	5.7	5.7	5.3	7.8	February
change in percentage points	0.6	0.2	0.3	0.3	0.0	
Participation rate (%)	65.8	73.4	69.6	69.5	67.0	February
Average weekly earnings ($)	834.21	1,000.85	859.44	804.20	872.12	December
% change	0.8	1.3	-0.1	0.9	0.8	
Inflation						
Consumer Price Index (% change)*	2.3	1.0	2.2	2.0	2.3	January
Economic Activity						
Retail trade ($M)	4,808	5,206	1,266	1,332	37,274	December
% change	-2.2	0.5	1.9	-0.4	-0.2	
Wholesale trade ($M)	4,067	5,545	1,659	1,205	45,852	December
% change	0.4	0.8	5.5	-0.1	0.8	
Manufacturing sales ($M)	3,068	5,366	975	1,288	45,410	December
% change	0.3	3.3	0.3	0.4	0.4	

** Compared to same month in previous year. Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corporation.*

CURRENTS is sponsored by:

CANADIAN WESTERN BANK



Monthly Feature

The Year That Was

Economists are almost done closing the books on 2010. Apart from some revisions to be done in a few months, the dust has settled enough to allow us to confirm that a post-recession recovery is chugging along—though not at breakneck speed.

For Canada as a whole, real gross domestic product (GDP) rose 3.1% in 2010 (compared to a decline of 2.5% in 2009). Growth was propelled by higher levels of consumer spending, government expenditures, business investment and profits. While the 2010 result is positive news, it was barely enough to make up the ground lost during the recession. From 2007 to 2010, Canada's economy grew only by a very modest average of 0.4% per year.

Across the West there are a number of economic indicators that suggest modest growth in 2010:

Job creation: On a net basis, new jobs were created everywhere in the West in 2010 except Alberta. Manitoba had the best overall job performance with 1.9% growth (+11,500 persons) but half of those new jobs were part-time. BC came next with 1.7% growth (+38,600), with half of those jobs part-time as well.

In Saskatchewan, growth job was limited to 0.9% (+4,800) but this reflected a 1.8% gain in full-time jobs while part-time jobs declined 2.8%, a very good sign. Alberta's employment total edged down -0.4% (-8,600) and the only positive news here is that part-time jobs declined while full-time jobs remained essentially unchanged.

Exports: Merchandise exports were up across most of the region in 2010 (except in Manitoba). BC's exports of forestry products rebounded (+21.0%), bringing the total value increase of exports from BC to 14.5%. Alberta and Saskatchewan's performances were comparable (+11.3% and +9.7% respectively), reflecting increased exports of energy products. Manitoba's decline of 3.0% reflected drops in machinery and transportation equipment.

Inflation: The inflation rate in each western province remained below the national rate of 1.8%. In BC and Alberta however, there were significant turnarounds in price movements for shelter and transportation items, which had both declined in 2009.

The Year to Come

Looking forward, forecasts for 2011 continue to paint a generally positive picture in the West. Real GDP growth is expected to be the strongest in Saskatchewan (+4.3%) due to potash sales and investments in the energy sector. Alberta will be right behind (+3.9%) as bitumen production increases, and also as a result of a rebound following a painful year in 2010.

Growth in BC is expected to reach 2.9%, slowing down somewhat from the 2010 estimate of 3.3%, reflecting a slower advance in the housing sector. At 2.8%, growth in Manitoba will be just below the national average but still very good, as the province posts steady population increases.

Forecasts are vulnerable to unexpected developments; otherwise all economists could afford to retire on their own tropical islands. For 2011, some risk is associated with world commodity prices (e.g., the events in Libya and Japan and their impact on oil and uranium) and from the speed (or lack thereof) of economic recovery and job creation in the US. You never can tell.

0.4%

Average annual growth in real Canada GDP from 2007 to 2010 compared to 2.8% from 2003 to 2007.

ECONOMIC INDICATORS: ACTUAL AND FORECAST (ANNUAL % GROWTH)

	Real GDP			Employment	Exports	Inflation
	2009	2010(e)	2011(f)	2010	2010	2010
BC	-1.8	3.3	2.9	1.7	14.5	1.8
AB	-4.3	3.4	3.9	-0.4	11.3	1.4
SK	-3.9	2.2	4.3	0.9	9.7	1.0
MB	0.0	2.4	2.7	1.9	-3.0	1.3
CA	-2.5	3.0	2.8	1.4	11.6	1.8

Notes: e=estimate, f=forecast. 2010 estimates and 2011 forecasts calculated by the Canada West Foundation as weighted averages of private-sector forecasts. Source: Statistics Canada, Canada West Foundation, TD, BMO, CIBC, Scotiabank, RBC.

DID YOU KNOW?

Inventories increased by $10.2 billion in Canada in 2010, a sign that consumers are less confident than producers about their prospects in the near future.

The West is the source of half of Canada's exports of agricultural, fishing and forestry products.

Three-quarters of Canada's energy exports originate from western Canada.

In 2009, inflation was so low in Canada (+0.3%) that it turned out to be negative in Alberta (-0.1%) and flat in Manitoba (0.0%). The Bank of Canada's policy is to try to keep national inflation within a range of 1.0% to 3.0%.

BEHIND THE NUMBERS

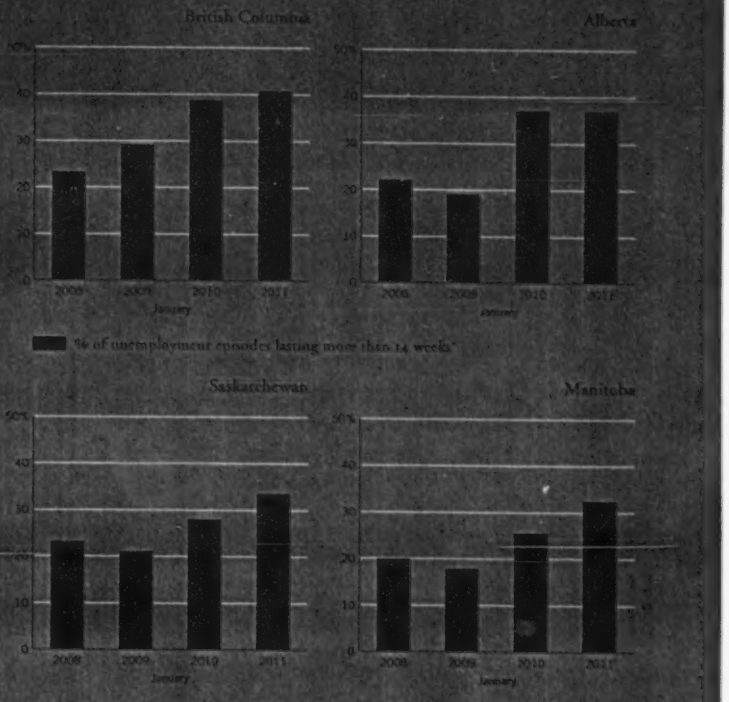
Not everyone is benefiting from the current recovery.

Among the currently unemployed many have been without a job for longer than usual. Looking behind the jobless totals, it appears that the economic downturn is leaving western workers unemployed for more weeks due to the industrial restructuring inherent to recessions.

All across the West short-term unemployment (that is, less than 13 weeks) has been replaced by long-term unemployment (more than 14 weeks) over the last three years. This phenomenon was especially visible in BC and Alberta, where the share of unemployed for more than 14 weeks increased by more than 15 percentage points between January 2008 and January 2011 to 37% in Alberta and 41% in BC. Unemployment duration in Saskatchewan and Manitoba shifted as well, but to a lesser degree.

SINCE 1990
periods of unemployment have systematically been shorter for western Canadians than for the rest of the country.

LONG-TERM UNEMPLOYMENT
JANUARY 2008 – 2011



*Note: *includes unknown duration*
Source: Statistics Canada and Canada West Foundation

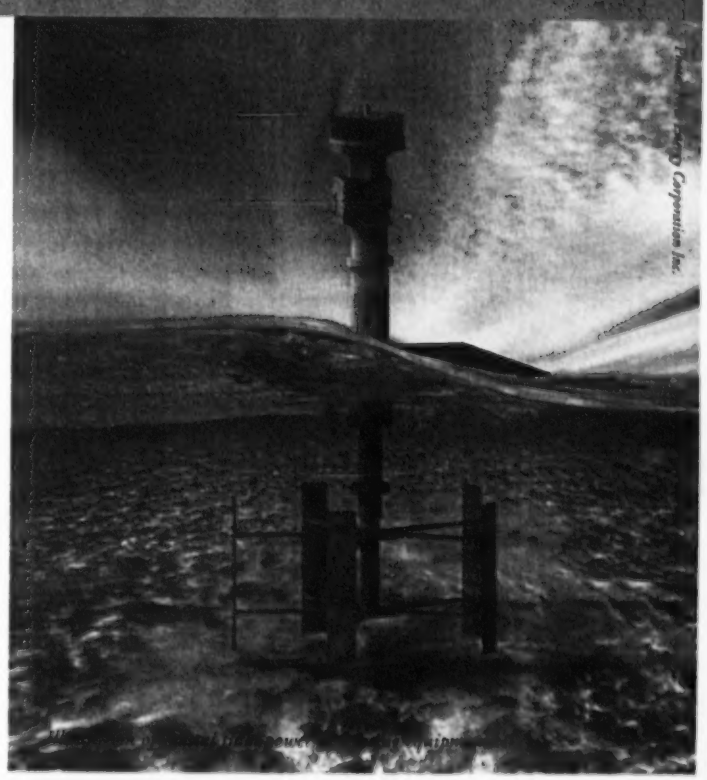
Energy Focus: British Columbia

Tidal Hydro

North American jurisdictions are making policy changes designed to stimulate the development of new types of energy systems. Last year, British Columbia's *Clean Energy Act* opened doors for the development of alternative energy sources, including tidal generation.

Tidal generation, much like traditional hydroelectric generation, involves the transformation of energy from the movement of water into electricity. While demanding a significant up-front capital investment, it has low operating costs. Currently, in Canada, only the Annapolis Royal generating station in Nova Scotia is commercially producing tidal energy.

Recent proposals for tidal energy in British Columbia have included use of both dams and hydrofoils. Hydrofoils use existing water flow from the seabed rather than creating increased flow via a dam. BC companies such as Blue Energy, Clean Current Power Systems and Canoe Pass Tidal Energy continue to move towards commercialization of tidal energy. Technology is likely to continue to evolve as demand grows for energy from low-carbon sources.



CanadaWest FOUNDATION

cwf@cwf.ca | www.cwf.ca

Head Office:
900 – 1202 Centre St. SE
Calgary, AB T2G 5A5
PH: 403-264-9535
TF: 888-825-5293
FAX: 403-269-4776

British Columbia Office:
810 – 1050 West Pender St.
Vancouver, BC V6E 3S7
PH: 604-646-4625
FAX: 604-684-7957

Saskatchewan Office:
KW Nasser Centre
256 – 3 Avenue South
Saskatoon, SK S7K 1L9
PH: 306-966-1251

Manitoba Office:
900 – One Lombard Place
Winnipeg, MB R3B 0X3
PH: 204-947-3958

OPINION

BY JACQUES MARCIL, SENIOR ECONOMIST

Till Debt Do Us Thwart

Over our recent past, federal ministers of finance and Bank of Canada governors have tended to work each in their own sphere. While they often shared common economic policy objectives, this was usually behind-the-scene work. This is why western Canadians should pay attention to what happened over the last few months. First, Governor Mark Carney made it clear quite publicly that interest rates would not remain low forever and that everyone should get ready for their next upswing, especially households. Then Minister Flaherty introduced new measures taking effect this week making it less easy for some people to turn mortgage financing into a form of extreme sport consisting in pushing one's financial exposure to the limit. *Darn right, and about time.*

The low interest rates Canadian households faced over most of the previous decade led them to sink deeper in debt than they can afford. Those rates were like a cheap drug that lulled consumers in the West and elsewhere in Canada into buying large-screen TV sets and other big-ticket items with money they did not have. Want and need somehow became blurred. In short, our households are more in debt than ever before; according to the Certified General Accountants Association of Canada, BC is the province where the debt problem is the most pressing.

Cheap credit is one root cause of this. And credit is still very cheap—over the summer the Bank of Canada's key interest rate soared to a level as high a one percent! The temptation is still prevalent—just think of the number of "invitations" you have received online or by mail over the last year asking you to become the holder of a new credit card.

This is cause for concern. As both Mark Carney and Jim Flaherty have been telling us, the scenario where interest rates remain "low for long" is far from guaranteed. It is very likely that interest rates will climb back to their historically normal levels (they averaged more than 4% from 1995 to 2008). That day, many Canadian households could face an untenable situation: they will have to default on some or all of their debt.

To many analysts' dismay, convincing Canadians of the urgency of the problem is an uphill battle. If you can recall, this past Christmas, we did not hear local shoppers clamour that the national consumer debt load was leading them to reconsider purchasing the most recent upgrades to video games, smart phones or orthopedically-incorrect teenage girl boots. What does it take to wake Canadians up?

For some, the new mortgage rules are a good jolt, but more needs to be done. New tax rules could also help, but my hopes are low in this regard—and we need fewer lines in our tax return, not more. Yet, Ottawa could play a role. We have proven in the past that we can face challenges successfully (think of deficit reduction or providing more computer and internet access) and some less successfully (such as our lag in productivity). We need our government to turn the reduction of household debt into a national-scale project.

Having one key partner in this endeavour could help increase the odds that we achieve our goal. That partner is obvious: Canada's banks. Our financial sector has emerged from the recession in relatively healthy shape and with an improved international reputation. If our banks fostered their huge marketing resources, they could provide government with valuable help. After all, unless I'm mistaken, the banks had some responsibility in getting us in this mess to start with.

Why would the banks do this? It is in their self-interest. Financial behaviour such as maxing out on one's credit card limit while paying only the minimum monthly fee is as risky for the lender as it is for the borrower. Just like any corner store, banks get in trouble if their customers cannot pay them for what they provide. Being prudent lenders served our banks well during the financial meltdown. Increased caution can only help them during the recovery.

CURRENTS is published bi-monthly by Canada West Foundation. The information contained in this report has been drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it does Canada West Foundation assume any responsibility or liability. Notwithstanding the fact that effort has been made to ensure the accuracy of the information and forecasts contained herein, this report's content should not be construed as financial advice.

CANADIAN WESTERN BANK

CURRENTS is sponsored by Canadian Western Bank. Canadian Western Bank is the largest Schedule I chartered bank with headquarters and principal operations in western Canada.

Visit www.cwbank.com.